Elbit Systems Ltd.
Management's Report
For The Quarter Ended March 31, 2005

This report should be read together with the unaudited financial statements for the quarter ended March 31, 2005 of Elbit Systems Ltd. ("Elbit Systems" or the "Company"), the Company's audited consolidated financial statements and related notes for the year ended December 31, 2004, the Company's management report for the year ended December 31, 2004 and the Company's Form 20-F for the year ended December 31, 2003, filed by the Company with the U.S. Securities and Exchange Commission and with the Israeli Securities Authority.

Forward looking statements with respect to the Company's business, financial condition and results of operations in this document are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements, including, but not limited to, product demand, pricing, market acceptance, changing economic conditions, risks in product and technology development, the effect of the Company's accounting policies as well as certain other risk factors which are detailed from time to time in the Company's SEC filings.

A. Executive Overview

Business Description

Elbit Systems and its subsidiaries (the "Group") operates in the area of upgrading existing airborne, ground and naval defense platforms and is engaged in projects involving the design, development, manufacture and integration of advanced integrated defense systems, electronic systems, electro-optic systems and products and software intensive programs and products for the defense and homeland security sectors. In addition, the Company provides support services for such platforms, systems and products.

The Company is engaged in leading projects in Israel and worldwide, in areas such as air, ground and naval Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance ("C^4ISR") systems, digital maps, night vision systems, pilot helmet mounted systems, display and data processing systems, unmanned air vehicles ("UAVs"), computerized simulators, communication systems, thermal imaging products, laser products, optical systems for space applications, airborne reconnaissance systems, optic communication systems and products, systems for Homeland Defense products, surveillance products and systems and electric drive systems.

The Company provides a wide range of logistic support services, including operation of pilot training services for the Israeli Air Force on a private financing initiative basis. Several of the Group's companies also provide advanced engineering and manufacturing services to various customers, utilizing their significant manufacturing capabilities. The Company often cooperates with industries in Israel and in various other countries.

The Company tailors and adapts its technologies, integration skills, market knowledge and battle-proven systems to each customer's individual requirements in both existing and new platforms. By upgrading existing platforms with advanced electronic and electro-optic technologies, the Company provides customers with cost-effective solutions, and its customers are able to improve their technological and operational capabilities within limited defense budgets.

The Company operates in a competitive environment for most of its projects, systems and products. Competition is based on product and program performance, price, reputation, reliability, maintenance costs and responsiveness to customer requirements. This includes the ability to respond to rapid changes in technology. In addition, its competitive position sometimes is affected by specific requirements in particular markets.

Acquisition of Tadiran Communication Ltd. Shares

On April 18, 2005, the Company completed the first stage of the transaction to purchase shares of Tadiran Communications Ltd. ("Tadiran Communications") from Koor Industries Ltd. ("Koor"). The first stage of the transaction was completed after all the conditions precedent and all the required approvals for this stage were obtained.

According to the transaction agreements, Elbit Systems purchased from Koor, in this stage, approximately 13.7% of the share equity of Tadiran Communications. In addition to the shares previously purchased by Elbit Systems in the stock market, it currently holds approximately 20% of Tadiran Communications' shares. Concurrently therwith, Koor purchased approximately 5.3% of Elbit Systems' share equity from the Federmann Group. The parties also agreed on April 18, 2005 to extend the completion of the second stage of the transaction by up to four months under certain circumstances.

Upon completion of the first stage of the transaction, three members of Tadiran Communications' board of directors were appointed: Joseph Ackerman, Elbit Systems' President, and two of Elbit Systems' Vice Presidents, Joseph Gaspar, Chief Financial Officer, and Jacob Gadot, VP for M&A. Also, Jonathan Kolber, the CEO of Koor, was appointed as a member of Elbit Systems' board of directors.

Elbit Systems purchased Tadiran Communications shares from Koor in consideration for approximately $62.5 million. Koor purchased from the Federmann Group Elbit Systems' shares in consideration for approximately $53.2 million.

Accordingly, the Company will account for its investment in Tadiran Communications under the equity method of accounting. In accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock", the Company's interest in Tadiran Communications, which has been accounted for as available for sale securities, should be accounted for retroactively under the equity method of accounting ("step-by-step acquisition") in the second quarter of 2005, the period in which the Company first obtained the ability to have significant influence over Tadiran Communications. Implementing the step-by-step acquisition method will result in a restatement of the Company's financial statements for all periods ending prior to April 18, 2005, in which the Company's investment in Tadiran Communications was accounted for as available for sale securities. The Company is currently evaluating the impact of the aforementioned restatement.

Financial Highlights

The Company's revenues increased by 8.0% and reached $230.7 million in the first quarter of 2005, as compared to $213.7 million in the first quarter of 2004.

Net earnings in the first quarter of 2005 were $13.1 million and the diluted earnings per share were $0.32, as compared to $12.3 million and $0.30 in the first quarter of 2004.

The Company's backlog increased by 10.2% and reached $2.37 billion as of March 31, 2005, as compared to $2.15 billion as of December 31, 2004.

The Company's cash flows generated from operations in the quarter ended March 31, 2005 was $49.5 million, as compared to $25.3 million in the quarter ended March 31, 2004.

The Board of Directors declared a dividend of $0.13 per share for the first quarter of 2005.

B. Backlog of Orders

The Company's backlog of orders as of March 31, 2005 reached $2,373 million, of which 65% were for orders outside of Israel. The Company's backlog as of December 31, 2004 was $2,154 million, of which 66% were for orders outside of Israel.

Approximately 63% of the Company's backlog as of March 31, 2005 is scheduled to be performed in the following three quarters of 2005 and during 2006. The majority of the 37% balance is scheduled to be performed in 2007 and 2008.

C. Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2004. See also the Company's management report for the year ended December 31, 2004.

D. Stock-Based Compensation

Effective January 1, 2004, the Company adopted the fair value recognition provision of SFAS No. 123. Following the adoption of SFAS No. 123, the financial results are no longer materially affected by the impact of changes in the Company's share price on employee stock-based compensation.

As a result of the adoption of SFAS No. 123 from January 1, 2004, the statement of income and diluted net earnings per share of the first quarter of 2004 were restated for purposes of comparison, as follows:

Net income as previously reported in the first quarter of 2004	$ 12,727
Restated net income (according to SFAS No. 123)	$ 12,252
Diluted net earnings per share as reported in the first quarter of 2004	$ 0.31
Restated diluted net earnings per share (according to SFAS No. 123)	$ 0.30

E. Acquisitions During 2005

On March 27, 2005, the Company's wholly-owned Israeli subsidiary Cyclone Aviation Products Ltd. ("Cyclone") completed the acquisition of the assets of the Aircraft Systems Division (the "Aircraft Division") located in Tirat Hacarmel, Israel, of Israel Military Industries Ltd. ("IMI") in consideration of approximately $7 million, a portion of which is in cash and the balance through assumption of obligations of the Aircraft Division. The transaction was made possible following the signature of an agreement among the Israel Treasury Ministry, representatives of the employees, IMI and Cyclone, relating to the severance conditions of the Aircraft Division's employees. The Aircraft Division manufactures weapon payloads and external fuel tanks for fighter aircraft.

The excess of the purchase price over the fair value of net tangible assets acquired in the amount of approximately $1.5 million was allocated to customer contracts to be amortized over an estimated period of four years. The financial results of the Aircraft Division are included in the consolidated financial statements from date of acquisition.

F. Summary of Financial Results

The following table sets forth the consolidated statements of operations of the Company and its subsidiaries for the three-month periods ended March 31, 2005 and March 31, 2004.

	For the three months ended March 31			
	2005		2004 (*)	
	$	%	$	%
	(In thousands of U.S. dollars, except per share data)			
Total revenues	**230,688**	100.0	**213,672**	100.0
Cost of revenues	**169,126**	73.3	**157,080**	73.5
Gross profit	**61,562**	26.7	**56,592**	26.5
Research and Development (R&D) expenses	**19,900**	8.6	**16,461**	7.7
Less – participation	**(4,734)**	(2.0)	**(3,167)**	(1.5)
R&D expenses, net	**15,166**	6.6	**13,294**	6.2
Marketing and selling expenses	**16,646**	7.2	**16,498**	7.7
General and administrative expenses	**12,772**	5.5	**11,562**	5.4
	44,584	19.3	**41,354**	19.4
Operating income	**16,978**	7.4	**15,238**	7.1
Finance expenses, net	**(1,732)**	(0.8)	**(479)**	(0.2)
Other expenses, net	**169**	0.1	**215**	0.1
Income before taxes on income	**15,415**	6.7	**14,974**	7.0
Taxes on income	**3,987**	1.7	**4,075**	1.9
	11,428	5.0	**10,899**	5.1
Minority interest in losses (gains) of subsidiaries	**220**	0.1	**(5)**	0.0
Equity in net earnings of affiliated companies and partnership	**1,493**	0.6	**1,358**	0.6
Net earnings	**13,141**	5.7	**12,252**	5.7
Diluted earnings per share	**0.32**		**0.30**	

* Restated – See section D

First Quarter of 2005 Compared with the First Quarter of 2004

Revenues

The Company's consolidated revenues increased by 8.0%, from $213.7 million in the first quarter of 2004 to $230.7 million in the first quarter of 2005.

The following table sets forth the Company's revenue distribution by areas of operation:

	Three-Month Period ended			
	March 31, 2005		March 31, 2004	
	$ millions	%	$ millions	%
Airborne systems	101.0	43.8	84.3	39.5
Land systems	26.0	11.2	51.8	24.2
C^4ISR systems	44.0	19.1	29.5	13.8
Electro-optics	43.2	18.7	40.4	18.9
Other (mainly non-defense engineering and production services)	16.5	7.2	7.7	3.6
Total	230.7	100.0	213.7	100.0

The changes in revenues distribution by areas of operation, other than ordinary quarterly fluctuations, were in the area of land systems sales, which decreased mainly as a result of delay in the receipt of certain orders for new projects, which were received but for which revenues were not yet recognized, while the revenues in all other areas of operation increased.

The following table sets forth the Company's distribution of revenues by geographical regions:

	Three-Month Period ended			
	March 31, 2005		March 31, 2004	
	$ millions	%	$ millions	%
Israel	67.2	29.1	53.9	25.2
United States	89.5	38.8	79.5	37.2
Europe	16.2	7.0	32.1	15.0
Other countries	57.8	25.1	48.2	22.6
Total	230.7	100.0	213.7	100.0

The Company's sales are primarily to governmental entities and prime contractors under government defense programs. Accordingly, the level of the Company's revenues is subject to governmental budgetary constraints.

The changes in revenues by geographic distribution, other than standard quarterly fluctuations, were in the revenues from customers in Europe, which decreased from $32.1 million to $16.2 million, due mainly as a result of completion of certain programs and the temporary reduction in the land systems area of operations for European countries, while revenues in all other geographical regions increased.

Gross Profit

Gross profit in the quarter ended March 31, 2005 was $61.6 million, as compared to $56.6 million in the quarter ended March 31, 2004. The gross profit margin in the first quarter of 2005 was 26.7%, as compared to 26.5% in the first quarter of 2004.

Research and Development ("R&D")

The Company continually invests in R&D in order to maintain and further advance its technologies, in accordance with a long-term plan, based on its estimate of future market needs.

The Company's R&D is coordinated with, and partially funded by, third parties, including the Israeli Ministry of Defense ("IMOD"), the Office of the Chief Scientist ("OCS") and bi-national and European Development funds. These programs were mainly in the areas of advanced airborne systems, cutting edge electro-optics technology and products for surveillance, aerial reconnaissance, lasers, space based sensors and homeland security technologies and products. The Company experienced increased IMOD and OCS participation in these programs.

Gross R&D expenses in the quarter ended March 31, 2005 totaled $19.9 million (8.6% of revenues), as compared to $16.5 million (7.7% of revenues) in the quarter ended March 31, 2004.

The increase in R&D expenses resulted mainly from new projects initiated in the last quarter of 2004, which involved a high level of R&D activities and a high level of third party participations.

Net R&D expenses (after reduction of third party participation) in the quarter ended March 31, 2005 totaled $15.2 million (6.6% of revenues), as compared to $13.3 million (6.2% of revenues) in the quarter ended March 31, 2004.

Marketing and Selling Expenses

The Company maintains its activities in developing new markets and pursues at any given time various business opportunities according to the Company's plan.

Marketing and selling expenses in the quarter ended March 31, 2005 were $16.6 million (7.2% of revenues), as compared to $16.5 million (7.7% of revenues) in the quarter ended March 31, 2004.

General and Administrative ("G&A") Expenses

G&A expenses were $12.8 million (5.5% of revenues) in the quarter ended March 31, 2005, as compared to $11.6 million (5.4% of revenues) in the quarter ended March 31, 2004.

Finance Expense (Net)

Net finance expense in the quarter ended March 31, 2005 was $1.7 million, as compared to $0.5 million in the quarter ended March 31, 2004.

The increase in the net finance expense resulted mainly from currency exchange rate differences, a higher level of long-term loans and an increase in interest rates.

Taxes on Income

Provision for taxes in the quarter ended March 31, 2005 was $4.0 million (effective tax rate of 25.9%), as compared to a provision for taxes of $4.1 million (effective tax rate of 27.2%) in the quarter ended March 31, 2004. Following a government decision that was approved in 2004, the income tax rate in Israel was decreased from 35% in 2004 to 34% in 2005.

The Company's tax rate represents a weighted average of the tax rates to which the various companies in the Group are subject. The change in the effective tax rate is attributable mainly to the mix of the tax rates in the various tax jurisdictions in which the Group's companies generating the taxable income operate and the recent decrease in the tax rate in Israel.

Company's Share in Earnings of Affiliated Entities

In the first quarter of 2005 the Company had net income of $1.5 million from its share in earnings of affiliated companies and partnerships, as compared to $1.4 million in the first quarter of 2004.

The companies and partnerships, in which the Company holds 50% or less in shares or voting rights and are therefore not consolidated in its financial statements, operate in complementary areas to the Company's core business activities, including electro-optics and airborne systems.

Net Earnings and Earnings Per Share ("EPS")

Net earnings in the quarter ended March 31, 2005 were $13.1 million (5.7% of revenues), as compared to net earnings of $12.3 million (5.7% of revenues) in the quarter ended March 31, 2004. Diluted EPS in the quarter ended March 31, 2005 was $0.32, as compared to $0.30 in the quarter ended March 31, 2004.

The number of shares used for computation of diluted EPS in the quarter ended March 31, 2005 was 41,617 thousand shares, as compared to 40,718 thousand shares in the quarter ended March 31, 2004.

G. Liquidity and Capital Resources

The Company's net cash flow generated from operating activities in the quarter ended March 31, 2005 was $49.6 million, resulting mainly from net income and advances received from customers. The cash inflows were partially offset, mainly by an increase in inventories and by payments of trade payables.

Net cash flow used for investment activities in the quarter ended March 31, 2005 was $21.7 million, which was used mainly for procurement of various assets and equipment and acquisition of Tadiran's shares.

Net cash flow used for financing activities in the quarter ended March 31, 2005 was $12.4 million, which was used mainly for repayment of long-term loans.

On March 31, 2005, the Company had total borrowings in the amount of $83.0 million, including $73.6 million in long-term loans, and $395 million in guarantees issued on its behalf by banks, mainly in respect of advance payment and performance guarantees provided in the regular course of business. On March 31, 2005, the Company had a cash balance amounting to $49.6 million.

The Company and some of its subsidiaries operate with loan and credit agreements that contain certain covenants. Such covenants include requirements for shareholders' equity, current ratio, operating profit margin, tangible net worth, EBITDA, interest coverage ratio and total leverage. As of March 31, 2005, the Company and its subsidiaries are in full compliance with all such covenants.

As of March 31, 2005, the Company had working capital of $184.8 million and its current ratio was 1.47. The Company's ratio of equity to total assets was 41%.

H. Derivatives and Hedges

Market risks relating to the Company's operations result primarily from changes in interest rates and exchange rates. The Company typically uses financial instruments to limit its exposure to those changes. The Company also typically enters into forward contracts in connection with transactions that are denominated in currencies other than U.S. dollars and New Israeli Shekels ("NIS"). The Company may enter from time to time into forward contracts related to NIS, based on market conditions.

On March 31, 2005, the Company's liquid assets were comprised of bank deposits, and it had no investments in liquid equity securities that were subject to market fluctuations, except for the Tadiran Communications shares acquired as mentioned above. The Company's deposits and loans are based on variable interest rates, and their value as of March 31, 2005 was therefore not exposed to changes in interest rates. Should interest rates either increase or decrease, such change may affect the Company's results of operations due to changes in the cost of the liabilities and the return on the assets that are based on variable rates.

The Company's functional currency is the U.S. dollar. On March 31, 2005, the Company had exposure due to liabilities denominated in NIS of $63 million in excess of its NIS denominated assets. These liabilities represent mostly wages and trade payables. The amount of the Company's exposure to the changes in the NIS-U.S. dollar exchange rate varies from time to time.

Most of the Company's assets and liabilities which are denominated in currencies other than the NIS and the U.S. dollar were covered as of March 31, 2005 by forward contracts and options. On March 31, 2005, the Company had forward contracts for the sale and purchase of such foreign currencies totaling $30.6 million ($18 million in Euro, $5.4 million in GBP and $7.2 million in other currencies). The results of financial derivative activities in this quarter were not material.

On March 31, 2005, the Company had options for hedging future cash flow denominated in GBP in the amount of $151 million. The fair market value of the options as of March 31, 2005 was not material.

I. Appointment of new Directors

On May 16, 2005, the Company's Board of Directors appointed Moshe Arad as a director. This is in addition to the appointment of Jonathan Kolber as a director on April 18, 2005.

J. Dividends

The Board of Directors declared on May 16, 2005 a dividend of $0.13 per share.

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